Appendix C

Financial Savings Achieved by Balanced Choice

United States health care expenditures are predicted to reach 20% of GDP product by the year 2010, without any programs to cover the currently uninsured. If programs are added to cover these populations, the expenditures will be even higher unless new cost savings are introduced. Balanced Choice proposes measures to prevent the escalating aggregate national health care expenditures, and also establishes the cost consciousness that can begin lowering the excessive cost of health care in the United States.

The chapter below is an excerpt from *Balanced Choice: A Common Sense Cure for the U.S. Health Care Systems*[1], and it describes how a national program with 100% participation would achieve enough administrative cost savings to cover the uninsured, lower the contribution from employers, and have additional funds for improving health care. As a Colorado Balanced Choice program approaches 100% participation, it could also achieve these savings. The estimates in this chapter do not consider the additional savings that would accrue from consumer cost consciousness or from other cost cutting measures suggested in the body of the proposal.

Chapter 4
An Outline for Financing Balanced Choice

Summary: Balanced Choice is financially feasible. By eliminating the high administrative expenses in the United States health care system, Balanced Choice could achieve a substantial savings, some of which would be used to meet the additional costs of the health needs of the uninsured. A large portion of the savings would be set aside to reduce the employers' contributions to health coverage. Balanced Choice proposes that health care funding could be provided by maintaining government and out-of-pocket sources at their present levels and converting both the reduced employers' payments and the current employees' payments for health insurance to a fund dedicated to paying for Balanced Choice health care.

Is Balanced Choice financially feasible? Can Balanced Choice be implemented for less money than is currently spent on health care? If it saves money, what might be done with that money? How might Balanced Choice be financed?

Savings Created by Balanced Choice

The United States already spends enough on health care that it can more than afford a health care system that has high-quality universal coverage. The current hodgepodge of seventeen different systems and a marketplace of competing insurance companies have created the most expensive health care system in the world, costing 47% more than the next most expensive system.[i] The key to financing Balanced Choice is finding a more efficient way to spend the funds that are already there.

Balanced Choice can create this efficiency by decreasing administrative costs. The conglomeration of United States systems has an enormous bureaucracy and administrative structure that siphons funds away from the delivery of health care. Providers and their staffs must spend a large portion of their time fulfilling the diverse bureaucratic requirements of these different systems. Single payer systems have much lower administrative costs. Balanced Choice, because it is a single system, would be just as efficient.

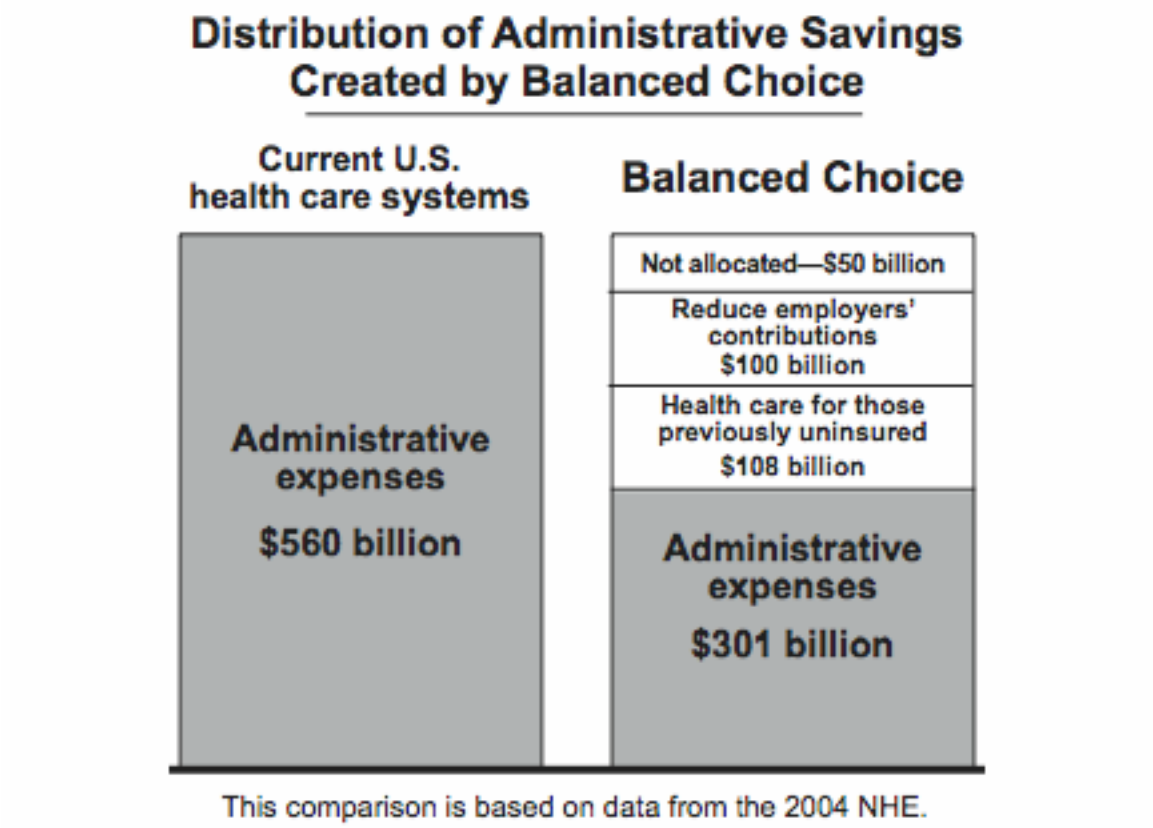
The administrative costs of the U.S. health care systems have been compared with the administrative costs of the Canadian single payer system in a 2003 analysis by Woolhandler and Himmelstein. They found that the administrative costs of the U.S. were 31% and in the Canadian system comparable costs were 16.7%.

[1] Miller, I. J. (2006). Balanced Choice: A Common Sense Cure for the U.S. Health Care Systems. Bloomington, ID: Authorhouse.

Although this study may underestimate the savings, it still indicates that by converting to a single payer system, the U.S. could save at least 14.3% of the National Health Expenditures (NHE—an estimate by the Centers for Medicaid and Medicare Studies of the amount that is spent on health care in the United States annually). In terms of the 2004 NHE, the conversion would achieve a savings of $258 billion.[ii]

To be conservative, the $258 billion figure is used here; however, there are good reasons to suspect that the actual current saving would be substantially higher. Woolhandler and Himmelstein found that difference between administrative costs in the United States and Canadian was increasing. Our health care system continues to become more complex. It is very likely that a study conducted today would show that administrative costs have grown even larger, which would mean that the conversion savings would be higher.

It will become a Balanced Choice priority to develop more current and accurate estimations of the full savings that can be achieved by an administratively simpler system. For now, the conservative estimate of $258 billion is sufficient to show that Balanced Choice would generate enough savings to cover the uninsured as well as to reduce the cost of health care in the United States.



Covering the Uninsured

Establishing universal coverage is the first priority for using the savings created by conversion to Balanced Choice. Fortunately, paying for the additional health care costs of the uninsured is not as large an expense as might be imagined. The uninsured already receive substantial health care services.[iii] Some of their uncompensated care is subsidized by cost shifting from patients with insurance. In other words, the fees for health care for those with insurance are high enough that they can offset the amount providers lose by treating those who cannot pay. Other times, the uninsured become eligible for public health insurance like Medicaid after they are impoverished by a medical condition. Some of the uninsured pay out of pocket. All of these payments for the health care for the uninsured are already included in calculating the NHE.

Balanced Choice only needs to find additional funding to provide for the uninsured's neglected health care needs. It is estimated that only an additional three to six percent of the NHE would have been needed to fully

cover the uninsured in 2001.[iv] To be conservative and assure that enough money is available for quality care, Balanced Choice uses the upper end of the range—six percent. With this estimate, $108 billion[v] would have been needed to cover the uninsured in 2004, the most recent year for which data is available. The $258 billion savings created by a conversion to Balanced Choice can cover this $108 billion and still have $150 billion savings for other parts of the health care system.

Providing Relief to Employers

Providing employers some relief from the high cost of furnishing health care is a priority for Balanced Choice. Currently, the high cost of health insurance is a barrier to hiring new employees, and consequently, it restricts job growth. In the long run, businesses in the United States need to be more able to compete efficiently in the global marketplace. Because American employers have had to carry the burden of health insurance, they have been at a disadvantage when competing with countries whose employers do not have such a major burden. Reducing this load on employers is not just good for employers; it is good for the country.

Balanced Choice proposes lowering employers' current total contribution to health care by at least $100 billion. Their current contribution consists of the employer's contribution to purchasing health care insurance, paying the medical portion of automobile insurance, and paying the medical portion of workers' compensation insurance. In place of this contribution, employers would contribute to a Balanced Choice Health Care Fund by paying a percentage of the employee's wages. This contribution, when calculated for all employers, would collect $100 billion less per year than the employer contribution in the current system.

Employers would achieve additional savings. Their benefits departments would no longer have any responsibility for health care administration. Their employees would no longer lose time learning about health insurance and dealing with the benefits department concerning health care.

In conversion to Balanced Choice, businesses should be promised that they would not have any future tax increases to pay for funding health care. If more funds are needed, the additional funds should come from another source, not businesses. Health care should be a national concern, not an employer's concern.

These changes would not affect all employers in the same way. Those who have been paying for the major costs of health care will likely have a great savings. On the other hand, the Wal-Marts and McDonalds, those who have not been paying for health care, will experience the contributions to the Balanced Choice Health Care Fund as an additional burden. To ease this adjustment, contributions for these employers would be phased in over a two-year period. This phase-in will likely cause wage expenses to rise at no greater than the rate of inflation.

Where Will the Other Balanced Choice Funds Come From?

As much as possible, Balanced Choice would obtain funds from sources that are already paying for health care in generally the same proportions that they have been paying. In 2004, the states and the federal government paid $824 billion or 45.7% of the National Health Expenditures.[vi] This funding would be transferred directly to the Balanced Choice Health Care Fund. Employers would continue to pay a portion, although a smaller one, through the proposed employer's contributions to the Balanced Choice Health Care Fund.

Out-of-pocket expenses, gap payments, and copayments would continue to contribute the same share of the NHE as they do currently. In Balanced Choice, however, the out-of-pocket expenses would be more equitable. In the current system, out-of-pocket medical expenses are often disastrous, causing 54% of the bankruptcies filed.[vii] In Balanced Choice, most out-of-pocket expenses would be voluntary for those who choose to use the Independent Plan. If expenses were too burdensome, patients could choose the less expensive Standard Plan, and if they qualified for financial assistance, could have Balanced Choice assume the copayments and gap payments. There should be no more bankruptcies caused by medical expenses.

Reductions in bankruptcy help businesses and financial institutions as well, because they do not have to absorb unpaid debt.

Employees would provide most of the funds for the remaining costs. Instead of contributing to the cost of their health insurance and paying for the medical portion of their automobile insurance, employees would make contributions to the Balanced Choice Health Care Fund based on a percentage of their wages.

The overall amount that employees contribute to the Balanced Choice Health Care Fund would not be greater than they are now paying for health insurance and the medical portion of automobile insurance; however it would impact employees differently. Those who presently pay a portion of their wages for health insurance will continue to pay a similar, but probably smaller, amount in the form of an employees' contribution to a Balanced Choice Health Care Fund. Those who have not had insurance will begin paying a portion of their wages to health care. Balanced Choice would smooth out variability in the system in which some employees pay a large portion of their health care, some pay a small portion, and some pay none but are uninsured. In place of the variable system, employees would pay for health care at the same rate, a percent of their income. In return, employees would be assured that they would have consistent health care coverage even if they are unemployed or change employers.

Conclusion

For less money than is currently being spent on health care in the U.S., Balanced Choice can provide health care for everyone. A conservative estimate indicates that $258 billion would be saved by conversion to Balanced Choice. Of this amount, $108 billion is needed to cover the uninsured, $100 billion is designated to provide employers relief from the burden of health care, and $50 billion is undesignated. Funding for Balanced Choice would come from the same general sources that currently pay for health care. What the employees currently pay for health insurance and most of the funds that employers currently pay for health insurance would be transferred to a Balanced Choice fund.

More specific expense and funding estimates are needed. In the next phase of Balanced Choice development, there will need to be a more comprehensive analysis of the savings realized from reducing administrative costs. It is likely that the administrative savings would be substantially greater than the preliminary conservative estimates. Mathematical modeling is needed to estimate how the Standard Plan and Independent Plan can prevent health care costs from excessive inflation.

No health care proposal has the answer for the constantly increasing technology and its associated costs. Expenses are rising also because more health care is available and people are living longer. People value health and want to spend more on health care as medical science has more to offer. It is not reasonable to think that health care should be frozen at some portion of the GDP. The growth in health care expenses will happen regardless of the system that is used for financing health care. With Balanced Choice, though, consumer cost consciousness should slow the growth as well or better than other proposals.

Establishing a health care system without provisions for increased future funding is contrary to common sense and a way to guarantee a system's failure. Without this provision for additional funding, any system, even Balanced Choice, will eventually run out of funds. The final Balanced Choice proposal will have recommendations for how and when the United States might need to consider increasing funding for health care.

Balanced Choice is financially feasible. It is a leap forward in financing health care, can provide more for less, and can contain unnecessary expenses. Balanced Choice can solve health care funding needs for the near future and slow the rate of rising health care costs.

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[i]. Reinhardt, U. E., Hussey, P. S. & Anderson, G. F. (2004). U.S. health care spending in an international context, *Health Affairs, 23(3*), 10–25.

[ii]. Woolhandler, S., Campbell, T., & Himmelstein, D. U. (2003). Costs of health care administration in the United States and Canada. *New England Journal of Medicine, 349*, 768–775. U.S. administrative costs accounted for 31% of health care spending and Canadian administrative costs accounted for 16.7% of health care spending in 1987. This is a 14.3% difference. According to National Health Care Expenditures Projected Aggregate by Source of Funds compiled by the Centers for Medicare and Medicaid Services (2005) health care spending for 2004 was $1,805 billion, which was multiplied by 14.3% to obtain a difference of $258 billion.

[iii]. Hadley, J. & Holahan, J. (2003). How much medical care do the uninsured use, and who pays for it? *Health Affairs, W3*, 66–81.

[iv]. Hadley, J. & Holahan, J. (2003). Covering the uninsured: How much would it cost? *Health Affairs, W3*, 250–265.

[v]. Hadley and Holahan, op.cit., reported that in 2001 there were 41 million uninsured and in 2004 there were 44 million uninsured. The 6% figure was raised to 6.4% to adjust for the increase in the number of uninsured, and this was multiplied by the NHE for 2004 of $1.805 billion.

[vi]. National Health Care Expenditures Projected Aggregate by Source of Funds compiled by the Centers for Medicare and Medicaid Services. (2005).

[vii]. Himmelstein, D. U., Warren, E., Thorne, D., & Woolhandler, S. (2005). Illness and injury as contributors to bankruptcy. *Health Affairs, W5,* 63–73.

Chapter 6. The Provider-Friendly Experience in Balanced Choice